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This transcript is the original transcript from Miller Reporting, except for the following clarifications and corrections made by the minority staff of the Committee on Government Reform: (1) pagination was added; (2) speaker identities were added where omitted or incorrectly identified; (3) misspellings of employee and project names were corrected; and (4) miscellaneous errors were corrected. Any corrections of omissions, misspellings, or errors are designated in **bold** type.

KENNETH LAY, JEFFREY SKILLING, AND JOE SUTTON

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MR. LAY: Thank you, Joe.

Let me first kind of go through the procedure here for those of you in different locations. Of course, as we said, today we are in our new headquarters building in London, which will be formally dedicated tomorrow evening. It is called Enron House, if we didn't mention that, and that is keeping with the tradition here in London, which some of you may not be aware of, but the buildings are named both House and after the names of the companies. So we are here at Enron House, which is a very, very beautiful building, as Joe said, and one that I think we can all be very proud of.

But those of you here in Enron House, of course, some of you are here in this room. You can either stand up to one of the mikes and ask a question if you'd like, or I think there are also cards around that you can write out cards and submit those cards.

Others in Enron House that are not in this room that would like to ask questions, if you will just write your questions out. There are people in those rooms which, in fact, will bring them into this room, so we can answer

them for you directly here.

And then, finally, for those of you watching this around the world on your computers, you can communicate with us via our E-Speak, which, in fact, we have a number of people here ready to take the questions that you will send in on the Internet, and we have already got, I guess, a few coming in. So we will start off with those, but if anybody else would like to send them in, please do, and we'll just take one of these.

Now, let me say this will all be very spontaneous today. That's, I think, good, maybe a little bad sometimes, but all mainly good. But we will do the best job we can. I guess if we have any disadvantage here today, fellows, we don't have the backup of all of our corporate staff folks like we usually do in Houston. So we will just see how we can handle this.

The first question, I'll take, and then we'll just kind of rotate around, but, again, if you've got questions, either write the notes out or send them in through E-Speak, and we will do our best with them.

Enron is continuously reinventing itself. How will you describe what you believe our company will look like to our investors in 5 years and 10 years?

An excellent question and one that obviously we do think some about, but I expect--I mean, again, going back to the fact that we are a totally different company today than we were 10 years ago, as I said earlier, where 10 years ago, 80 percent of our net income came from our regulated pipeline business. Today, it is less than 20 percent, and, of course, the other 80 percent are basically businesses we weren't in 10 years ago with, of course, over two-thirds of our earnings before interest and taxes coming from our wholesale energy business, which was a brand-new business 10 years ago.

Probably, today, at least 30 to 40 percent of our market capitalization is coming from our two new businesses, which Jeff talked about, our Enron energy services and broadband services business, which are businesses we weren't in 3 years ago. So I think clearly 10 years from now, we will be a totally different company.

Now, I will just make a couple of general comments on that. I think 2 years ago, some of us said--I said--I think Jeff said--that we thought Enron energy services had the potential of being at least as big as all of Enron was 2 years ago. I think it clearly does have that potential and more. I think we'd say today maybe more, but I think in

another 3 years or so, Enron energy services probably will be as big as all of Enron was a couple of years ago.

I would say today--and as far as I know, Joe or Jeff wouldn't disagree with this--that I think 5 years from now, broadband services could be as big as all of Enron today, and, again, with the kind of potential, who knows where it goes from there? So, certainly, we are going to be a much bigger company, hopefully a lot bigger market cap company, as well as more revenue and income, and, of course, employees and all the rest of that, but I expect out of these businesses, we will find still additional businesses. I am quite sure over that next 5 years and certainly 10 years, we will be creating whole new businesses.

Of course, we've got the Enron Online effort, which is growing at an enormous pace, as Joe said. We are now looking for other types of e-commerce businesses, both directly related to our business, but maybe not so directly related, that we may want to kick off. So we have whole new platforms of just high explosive growth that we have underway, but there is no way that I could sit down today, just like I couldn't sit down 10 years ago and kind of put the road map out that we are going to create this business this year and another business 2 years from now. And

certainly, even 3 years ago, none of us would have expected certainly broadband services to be anywhere near as big or have as much potential as it does today.

But I think that, again, comes back to my basic point earlier. It is our employees. It is our work force. We do have the best and brightest, most creative work force, certainly, we think in the world, and out of that work force or out of that intellectual capital comes a lot of really creative promising ideas, and we urge all of you to kind of keep--as Joe said, keep communicating, keep giving us your good ideas as you go along.

Jeff, will you take the next one?

MR. SKILLING: This is another E-Speak question, and it asks how many customers worldwide does Enron, all business units included, serve daily, and I don't know the answer to that, but it is probably in South America, a couple of million. In Portland General, it's a million. North America, the wholesale, it's probably 4 or 5 million customers, I am guessing.

MR. : **[Unidentified speaker]** It's a whole lot.

MR. SKILLING: It's a lot, but I'm sorry I don't know the answer to that. But we'll find out.

Do you want me to go ahead and take one--some of these?

MR. LAY: Sure, sure.

MR. SKILLING: We are getting some in now from the organization here. This question, is it likely that we will make any future significant organization changes as we did last summer any time in the near future?

I really don't know. I hope that the organization over time gets comfortable with reorganizations.

To be quite honest, I was a little bit surprised last summer as the trauma that that organizational change sent through the organization. We've got to get better at that. I mean, there were no layoffs. We weren't trying to get rid of people. We were just trying to redirect the organization to better match what was going on in the marketplace, and the markets are moving fast. They are moving really, really fast, and so I think we have to get flexible.

So there is nothing that we are considering right now, but if the market has changed, then we will make what changes in the organization we think are necessary to stay on top of those markets.

And please, you know, just take them for what they

are. I mean, we're just trying to make it to where the organization matches better what's going on in the outside marketplace.

Joe, do you want to do one?

MR. SUTTON: I've got an E-Speak question. Will Enron stock remain in the utility index?

I think we've discussed this at some length, and we don't like so much to be in the utility index. Certainly, Enron is not a utility stock. There are some advantages to it being there as well. So we are trying to move to, I think, other indexes, but the chances are it probably will for a while remain in the utility index, even though we don't particularly like it there.

MR. : **[Unidentified speaker]** Much to their benefit.

MR. SUTTON: Yeah, much to all of our benefit. Okay?

And I will take another one here, and, Ken, here's a couple more, if you want.

The one question I have is how do our assets, gas and power, fit into the future strategy for the company.

We just had a meeting before we came in here with an executive forum here, and like we said, we will always

have in [inaudible] energy business, gas and power assets, and they fit very--depending on the market, they are a very important part of our strategy going forward, but I think we also have to realize that our idea is to increase the velocity of capital to the point where we are able to redeploy our capital consistently and continually. So, therefore, we are not going to fall in love with any asset.

You know, if it is something that serves a good use, a good purpose in the market, what we want to do, then, we'll build it, we'll develop it, we'll own it, but there's a time when most assets need to be moved on and we will move to something else. So a very important part in our business, but we are not going to fall in love with it.

MR. LAY: And I will just mention this first from the standpoint that, clearly, these are issues that people are thinking about, but the same question that Jeff just answered about reorganizations, we have a second question on that. So I'm not going to answer it because I fully agree with what Jeff said.

Now, we also have two questions that are fairly close or almost identical, something along the lines--we have seen a lot of people move between businesses recently. Can you give us your views on whether you see this

increasing and whether there should be controls on how our approaches are made?

I guess controls on people in other organizations, approaching people to move over to their organization. An excellent question, and let me say one that we at the executive committee level have talked quite a bit about.

But let me first say, as that question refers to, we have over the last 3 weeks identified and moved with their consent about 70 or 75 people in the organization largely to either broadband services, some to Enron energy services, and I think just a very few even to Enron North America. And they have been moved from areas that, again, were important areas to the company and areas where we think and we still think have long-term potential, but just didn't have the near-term potential we see in these other businesses, and particularly broadband services and Enron energy services.

And with the broadband services opportunity that we have, we want to make sure that we don't understaff it. We want to make sure that if, in fact--if, in fact, we don't achieve the kind of potential that Jeff laid out for you, it's not because we didn't put enough people in there or enough capital in there, enough attention there to really

make sure we made a good run at it.

Now, I think from the standpoint of Enron--I think this also points out one of the real strengths of Enron. Very few organizations could have scraped up, if I could use those words, anywhere close to 50 or 75 high-quality people to move from elsewhere in the company to relatively new high-growth businesses.

We could, and we could do that without, we think--without harming our other existing businesses, and, indeed, these are--these are very strong performers in the company, but we have so many other strong performers throughout the company in all of our businesses that, in fact we can do this and continue the type of momentum, the type of growth that we already have underway in all these other businesses. So I think it is largely a strength of the company.

Now, two things out of that, first of all, everybody should understand that that is now completed. Now, it doesn't mean that there will not continue to be some movement inside the company, just like there always is between and among businesses, and, certainly, we encourage that. So we have a good labor market, so to speak, inside the four corners of Enron, but, secondly, we do think it's

appropriate that before people begin contacting employees and other businesses and trying to entice them away, at least some senior officer in that other business knows about it. And I say "knows about it," there's at least a conversation that's been had where, in fact, there is a discussion as to what the party has in mind and whether, in fact, it makes good sense for Enron overall.

And, of course, if there is disagreement on that among the two groups, that is where Jeff and Joe and I come into play, but, certainly, it should not be something that is done, so that the organization losing the person doesn't really know about it until the deal is struck and that person is about halfway out the door.

So, I mean, certainly, again, getting back to Joe's point on communications, we need complete and open communications on this, but, indeed, the ability to move talent freely around the company--and that was another purpose of the reorganization last summer--is one of our real strengths, and it allows us to respond to the marketplace much more quickly and achieve much stronger results than just virtually any other company that I think--that I know of and I suspect that you know of.

Jeff, you got some more there?

MR. SKILLING: Sure. Well, there's two here. I've got one. Do we consider ourselves an energy company anymore?

There's no question, we're an energy company. It's probably 99 percent of our net income. It's probably 90 percent of our asset base. We are an energy company, but I think we are also some other things.

One of the areas or one of the ways that we have been looking at defining this to try to bring some clarity to it is the network nature of what we do. What Enron really does is Enron develops and operates networks, whether it is an energy network or increasingly a telecommunications network, and the mechanics of doing that are very similar across electricity, natural gas, and communications or bandwidth. So I think we ought to be thinking more in those terms, but we are still an energy company. We will always be an energy company, but we are an energy company-plus, and that "plus" is using the network expertise we have developed in energy in some other applications. And broadband is one. I think there are some network applications in the retail business as well.

Let me just do a real quick--this is an E-Speak question, and it is kind of a long one. Let me see if I can

go through it. We are all very pleased with the performance of the Enron stock price since the beginning of the year. This appears to have been fueled by the announcement of the link-up with Sun on the use of Enron's wideband data capabilities. However, the increase has affected those of us who elected to take part of our annual discretionary bonus of stock options, as the recent price of the options was set last year before the recent price increases, the price of the options calculated using market information including stock price. Would it be fairer to set the price of the option on the same day the options are granted? This will eliminate any perceived inconsistency.

I am totally with you on this. I mean, this is just a problem. Unfortunately, this is a technical legal issue that we have to do in the form that we're doing it. It's required or our plans do not make muster under certain tax provisions of the U.S. Tax Code, and we are just stuck with it. So what we have to do is people have to opt early for the options. The options don't get priced until--I think it's the date the comp committee meets.

MR. : **[Lay]** They cannot get priced until the day the comp committee meets.

MR. SKILLING: Yeah. And I'm sorry about it. It

was just a legal thing. There's no way around it. We're stuck. We've tried to do things. We just can't get around it.

MR. LAY: I will say that virtually any of you and all of you that over the years have decided to take options instead of cash have come out incredibly well. So we understand the concern, but I don't think any of you, particularly those of you who have been doing it for at least 2 or 3 years--and I don't think you will regret doing it this year, and I will come back to that here in just a minute.

MR. : **[Sutton]** Just to add on those same comments, I've got a couple of questions [inaudible] back in Houston on that.

We did our absolute best this year to get the options strike date as close as we could or as far as we could in advance of the analysts meeting. We tried--if you--we were sensitive to that when we went into it, did the best we could to give the Enron employees the best value we could, and we did--unfortunately, Jeff said legally. There are some parameters that we have to follow there. So we did--just so you know, we were thinking about it. It wasn't an oversight, and we did the best we could.

I have an E-Speak question. What is the policy of Enron regarding renewable non-polluting energy such a solar, wind, et cetera? Is Enron strongly supporting the development of these sources of energy, and if yes, what are the Enron actions and projects that take place in this area?

Well, first of all, Enron sold its solar energy component--I believe it was the end of the year before last--to BP-Amoco.

We do own--own 100 percent right now or soon 100 percent--the second- or third-largest wind company in the world, Enron Wind Corp., and we decided to fold that company into Enron, embrace it, and make it a company that we are going to try and grow.

Its activities will be located in California and in Europe where it has a very strong market share right now. We think there's a great future in the wind company.

Now, the reason that wind is a little different than solar is that wind can scale up somewhat, and also wind has been very successful in forcing down their cost of generation.

Right now, we expect at the end of this year to see wind costs at about 3.5 cents a kilowatt hour, which allows it to compete in the market. Solar, we weren't

seeing that trend. Solar, the trend is quite expensive.

It's very small power sources. It is not something Enron is really pursuing. So, in answering your question, I guess we are very much involved in wind. We are not any more involved in solar.

MR. : [Lay] Another question on the stock price, and this, again, is E-Speak. Where do you see growth in the stock price coming from over the next 12 to 18 months? What things are going to get the analysts excited?

I think we've got a lot of things. Let me first say that, virtually, all of the analysts that follow us closely, all of the financial analysts that follow us closely have a target price of between \$75 and \$100 a share for our stock price over the next 12 months or, in some cases, less than that, and I think the three of us would totally agree that that is very doable, including the upper end of that range.

That if, in fact, we execute well this year, we could see a stock price considerably higher than it is today. Now--obviously absent a real serious adjustment in the stock market which on any given day is anybody's guess, but as we look at the company, I mean, first of all, I might say execute; that is, execute in all of our businesses,

really hit our financial targets, really continue to perform consistently as we have the last couple of years, but, secondly, certainly executing in our Enron energy services business and our broadband services business where I would expect that we will have--continue to have some pretty exciting announcements coming along as to individual contracts or new relationships or new businesses, which will further strengthen the value of those businesses in the eyes of the analysts and, more importantly, the portfolio managers.

Now, we do have some other--some other businesses that we are working on, not of the size of broadband or Enron energy services, but some other businesses that may be rolled out during the year, but for all kinds of reasons, I think you'd find all three of us very optimistic, and that was, in part, my earlier answer to the stock option question.

I suspect that those people who took, again, this year stock options in lieu of cash--and, of course, I think you get a little premium doing that, too, a little more than 100 cents on the dollar as far as the number of stock options you get--you will--you will not be disappointed in the results from that, probably even before this year is

out, nonetheless, over the next 2 or 3 years.

MR. : **[Skilling]** They suggested that we ask if anyone in this room would like to ask a question. We do have the mike set up if anyone would like to lob one over.

Yes. Could you go in front of the mike? It would help, I guess.

QUESTION: I just wondered if with the sort of Enron broadband whether there are any plans as wireless broadband increases, to move into that market at all in terms of mobiles, with sort of video technology or anything like that.

MR. : **[Skilling]** The question relates to wireless broadband as opposed to fiber, and we are focusing strictly on the wholesale markets for bandwidth. The whole last mile issue, which gets it from a pooling point out to the actual customer, we are leaving in our customers' hands. We don't want to compete with our customers in that market.

Since virtually all of the wireless applications relate to the last mile, my guess is we won't have very many applications in.

Now, we are looking at some satellite applications where we purchase or have access to a transponder on a

satellite, but in terms of the last mile, actually broadcasting across the city the last mile connection, that is not something that we think we ought to be doing right now.

Now, you know, 4 years from now or 5 years from now, who knows? We might consider it, but, right now, we have decided we are not going to compete with our customers. Our customers tend to be the people providing that mass last mile solution.

Any other questions in this group? Okay.

MR. : **[Lay]** This question, again, came from E-Speak. There are many articles about the aging baby-boomers and the need to keep them in the work force rather than have them retire early. Authoritative sources say that if our economy remains strong, these people have to be retrained and the company will need to be flexible in their employment policies. Does the company recognize the value of its older employees?

Well, I hope so because I'm one of them.

[Laughter.]

MR. : **[Lay]** I commented at a meeting earlier today that there are many days as I walk around our various operations in Houston or even here or elsewhere, I

believe I may be the oldest employee at Enron. Now, that's not true, but there are days when it almost appears that way.

How can older employees work with Enron to keep up their skills and maintain value into the 21st century? It is an excellent question, and we do get this question occasionally because we do have a lot of younger people in the company, and thank goodness we do. This is the talent we brought in for the most part over the last decade, which, again, allows us to do all of the exciting things that we are doing today because we needed that new talent base and new thinking and new ideas, but, clearly, we have a lot of our employees of all ages that have new ideas, creative ideas, new ways of going about the business.

And, of course, in every one of our businesses today, not just the broadband--and we made this comment earlier, not just broadband or Enron energy services, but virtually every one of our businesses, the major constraint to even faster growth is having enough people. We are scrambling in virtually all of our businesses virtually around the world, trying to continue to add the skilled work force and the skilled people that we need to keep up with the growth.

So, as a company, we have got to not only continue bringing in a lot of newer talent, younger talent, and move them on up the ladders, but we've got to make sure we do everything we can to retain all of our good talent, no matter what ages or what other characteristics are involved here. So we are sensitive to that.

And I think as far as the skills and maintaining their value, I think a lot of that responsibility has to come back to the employee, and we said this many times before, also. The world is moving so fast that we can't predict the exact kind of skills we are going to need 5 years from now or 10 years from now, and, certainly, we don't know the individual interests and capabilities of all of our--all of our employees. So I think all of our employees have to continue to self-assess their own desires, their own wishes as to what they want to do, what they think they're good at, and then certainly assert themselves in the organization with their leadership through the HR department as to the kinds of things, the kinds of skills they'd like to develop if that's what they think they need because I think we've got to each take responsibility for our own lives at the work--at the workplace as well as at home and everywhere else. But, certainly, we want to do everything

we can to accommodate that.

As I've said, I think more than anything else, Enron is about providing an environment where everybody can realize their dreams, and that is exactly what we want to be. So I think at any age, if you've got something that you want to do differently or skills you want to pick up or education you want to complete, make your wishes known and we will do our best to try to help you--help you meet those personal goals.

MR. : **[Sutton]** I have a couple of E-Speak questions here I am going to go through. One is: How do we as a company act on the moral obligations that we have towards the nations that we enter? The E-Speak person says I'm thinking, for example, of the negative press given India--given Enron in India and South America by human rights groups and environmentalists, respectively.

Well, first of all, I will tell you that Enron takes their obligations very seriously--very seriously, and I will tell you, in these two particular reports--one is the human rights report on India. The report was porta-researched [ph] **[poorly researched]** and unfounded, and we took issue with the group who wrote it and told them that.

And this was a case where we were being--they were pinning **[painting]** us to the brush of not endorsing human rights because local police arrested some protestors that became unruly. Well, that's not something we can govern nor do and have anything to do with. So I think it's important to understand we try to be good corporate citizens wherever we go. We do things for the social benefit of people. We are very careful with how we approach the environment, and we will continue to do that.

And the same thing goes in South America where there's a pipeline we're trying to build down there. It was going through a dry rainforest. It sounds like an oxymoron, but they related it to dry rainforest.

MR. : **[unidentified speaker]** Hey, we found it.

MR. SUTTON: Dry rainforest. And in doing that, we worked very closely with environmental groups to make sure that we were passing through there properly and returning the environment the way it needed to be returned, and we even made a large contribution from a monetary perspective to making sure the environment was returned. So we take it very seriously, and there's different spins on things sometimes that cause us problems, but it's very

important in our efforts.

The second question I have is: Dear Jeff, Joe, and Ken, Equity analysts are starting to talk about the stock market Internet bubble drawing to a close over the next few months. Money Central has downgraded us, December 2001 estimate, from over \$200 to \$96. In your opinion, what would be the likely impact here on Enron?

Well, as Jeff pointed out earlier, Enron is--Enron is a different type of company. Enron is not an Internet company. Enron is a company that has--that deals in infrastructure and intelligent networks and as a result of that has put together a business we think makes sense.

Unlike most of those companies, our company actually makes money, too. So, therefore, we have an advantage there as well. So I think our approach to the business makes sense. I would think we would do very well, regardless of what happens to the Internet stocks.

MR. : **[Lay]** Any other questions in the room? We want to make sure to give everybody here in this room an opportunity to ask questions, too.

All right.

MR. : **[Skillling]** This is another E-thing. I'm sorry. E-Speak. E-Speak. Okay.

MR. : **[unidentified speaker]** E-Speak is okay, too.

MR. : **[Skillling]** E-Speak. Yeah.

Endless possibilities in energy and in communications, but is anyone trying to discover now what will be the endless possibility of the future? And that also relates to a couple of other questions, one relating to e-commerce strategy and that sort of thing.

I guarantee you, if there is one thing that Enron has a lot of thinking going against, it is what we do in the future. You wouldn't believe some of the great and not-so-great ideas that come across my desk every day.

[Laughter.]

MR. : **[Skillling]** Now, in terms of areas right now that I would just like to let you know we are working on and areas that I think are important, if I were to say which are the really biggies for the future, I think in the wholesale business, the Japanese market has enormous potential for us. That market is opening up.

We've got a team on the ground in Japan. If it opens up the way we think it will, it could be enormous, the second-largest energy market in the world, and I think our approach will be very powerful in Japan.

Second thing i n the wholesale market is the European continent. We are all very, very interested in the evolution of this market. This is key, and this is an area that Enron ought to do extremely well in as the continental markets open up.

At the retail side, international expansion of Enron energy services is an area that we are spending a lot of time and effort on. I would like to see us carve out a strong position in Europe this year in EES that we can begin building on significantly in the future.

Communications business, we have already talked about that, but a couple of other ones that you might be interested in, we have a number of people that are very interested in taking some of the activities that go on inside of Enron and turn them into e-commerce businesses.

We actually develop a lot of software. We have a lot of mechanical programs and things internally that we believe can be commercialized, and we've got a group of people looking at that right now.

Mike McConnell is heading up the technology effort. He is working with each of the individual business centers, but we've got a couple of really great ideas, very interesting ideas that we will be looking at and seeing if

there is a way that we can commercialize these, take these things public, as similar to typical IPOs, and see if there is an opportunity for Enron there. So that's another area that I think has got some good potential in the future.

Other than that, I am trying to think if there are any other biggies that are going on.

MR. : **[Lay]** That's a lot of stuff.

MR. : **[Skilling]** That's a lot of stuff.

Industrial--oh, that's right. Another one. This is in the wholesale markets as well.

When we set up EES, we kind of arbitrarily cut the marketplace by something called SIC codes, which are Standard Industrial Classification codes, and EES got basically the smaller--large commercial, smaller or light industrial SIC codes, and the heavy industrial SIC codes stayed with the wholesale business. So that would be like refining chemicals, steel, pulp and paper, that sort of thing.

What we are trying to do is we are trying to put together a team, a joint team from EES and from North America, and then ultimately from Europe to start attacking some of these large industrials with some of the tools that we have from EES along with our traditional wholesale tools.

So we are putting together a team starting under Greg Piper [ph] in North America right now to get that up and running, but I think there is a lot of opportunity there to take some of the EES ideas on outsourcing and apply them to some of the larger companies.

Obviously, you have to bring our wholesale capabilities because that is what they are looking for in addition to that, but putting those two together, we are probably going to have a pretty powerful product offering to put in the marketplace.

MR. : **[Lay]** Bandwidth management outsourcing.

MR. : **[Skilling]** Bandwidth management outsourcing. Okay. There's another one.

And I didn't tell you the latest one I heard.

MR. : **[Lay]** I'm not surprised.

MR. : **[Skilling]** Satellites, energy from satellites.

MR. : **[unidentified speaker]** Credit Online here in the U.K.

MR. : **[Skilling]** Credit Online in the U.K. Yeah. There are just all sorts of things. So I don't think anyone has to worry that the innovation machine is

slowing down in Enron. If anything, it's gearing up, and there are lots of things coming down the pike.

MR. : **[Skilling]** Joe, did you want to take--

MR. SUTTON: **[Lay]** You notice how he's kind of taking the easy ones and giving the rest of them out.

[Laughter.]

MR. : **[unidentified speaker]** You can take it here.

MR. : **[Sutton]** This is an easy one. This is an E-Speak question. A great show on television. Could we please have a copy of the slides?

Yes. Okay? Yes, you can. The slides will be on the Intranet, and you can pull them off the Intranet. We will run them after this presentation is over.

The second question I have here is also an E-Speak question. What exactly is the rationale behind the changes taking place with the associate analyst program? That is the first part of the question.

The second part, why is the summer program so much smaller this year?

Third part, why are we recruiting from fewer business schools and more liberal arts programs for

analysts?

Third, it seems to compete with banks for top-quality people. The program should be getting less bureaucratic. Why does it seem to be moving quickly in the other direction?

Let me see if I can answer these. First of all, what we found last year--last summer, we recruited about 209 associates. Associates are graduate-level students who come and work for Enron and about the same number of analysts.

The associates that came, the feedback they got was they didn't feel it was a personalized enough program. We were bringing in top-quality people into the program and sort of putting throughout the system, and it wasn't getting the entrants what they wanted in terms of growth in the company.

So, this year, we made a conscious effort to decrease the scope of the program somewhat and bring people in, once again, very high-quality people from the best business schools and other schools where we need people, and put them on a more specialized program which we hope will allow us to retain them more and challenge them to grow in the company. That is the first question.

Second is: Why are we recruiting from fewer

business schools? That is not the case, I don't think. I think that is a misunderstanding.

The schools we are recruiting from are still the top schools in the country for both analysts and associates, and we are putting more analysts this year than last year. That is the bachelor degree-level people because they can come in and we can put them to work doing skills in the company that more fit their qualifications, crunching numbers, doing things like that, to learn the business a little longer, which some of the associates were resenting doing. So that is why we have more analysts coming in, but still from the top-notch schools. It is a very competitive program, and I think that none of that has changed.

With regard to the third part of the question, which is getting more bureaucratic, I think that's just the--it's just the opposite. What we are trying to do is personalize it more, make it less bureaucratic, and more flexible in terms of the needs of the person that comes in.

Perhaps, like, for example, there may be some folks who come in for a 1-year rotational period instead of 2 years. There are people that come in and we put them in a business unit and they rotate within the business unit to different locations instead of just to different business

units. So we are looking at flexibility in the program as well.

MR. : **[Lay]** A couple of questions here. One, why is Enron--and again, E-Speak. Why is Enron stock so volatile now? Since today's session started, ENE has lost another \$2.50.

I've not checked the market--had a chance to check the market. I don't know what the overall market is doing today, but I think for several reasons, it's more volatile. But before I comment on that, let's keep in mind that our stock price is still up, even with this 2.50 or so, if it did drop that much this morning, and I presume it did. But our stock price is still up about 40 percent thus far this year, the first 2 months of the year. That is a pretty good compound annual rate, to start off with, but when the Dow is down about 14 or 15 percent, certainly that is still good performance.

Of course, if we look back to as recently as mid-December, the stock price is up about 75 percent, and that's one reason it's so volatile because some people, of course, bought in somewhere along the way. They have had a good strong increase, and particularly with the uncertainty about the overall marketplace right now and nervousness

about the overall marketplace. Many people just want to take some money off the table, and that's what they're doing.

But, secondly, clearly as we become more of a technology stock, a high PE stock, a growth stock held by growth portfolios, you are going to have more volatility, just like all of the other companies that fit into that category.

Obviously, as you see throughout the market, technology stocks quite often go up or down, not just even \$3 or \$4 a whack, but quite often \$10 or \$12 or \$15 a whack.

Now, what I tell [inaudible] **[Mark Koenig]** is, I love that volatility on the upside. I hate it on the downside. But that's exactly what we've got, and, of course, we've also got a lot of change in the ownership of our stock.

Increasingly, it is being bought by the growth portfolio managers, and, of course--and even so, the momentum portfolio managers. And, of course, increasingly, it's being sold by--by the value in other portfolio managers that picked it up at much lower valuations, and now at these values, they want to take their money and put it back into lower PE stock. So a lot of reasons for it, and I know it

makes everybody a little nervous, but this is probably the world we are in now. And I would rather be in this world with a 50 PE than in that more stable world with about a 20 PE.

Let me go to one other question here real quick because I know we are going to run out of time a little bit. What will be Enron's entry strategy to new international markets in the future? Up until now, it has been asset-based. Will this continue?

I think that will depend on the individual markets. Jeff mentioned earlier, we are moving into Japan, for example, a new market for us, and, initially, there will probably not be a lot of assets there.

Now, we will probably be trying to add some assets over time, just like we are currently in Europe and have over the last 3 or 4 years in Europe, but, basically, we are going in there with more of a marketing strategy.

From the standpoint of Australia where we are also the largest supplier of electricity and natural gas currently, again, very few assets, and that is a fairly significant market. And we went in there a couple of years ago or so, and, again, basically, it's a market-driven--a marketing-driven strategy.

South Korea, we bought some assets along with the--from the SK Group and formed a joint venture to get into that market. So I think you will see us in each market a little different, but, clearly, we increasingly want to emphasize return on invested capital, and I hope that is getting throughout the company that we want to increase the returns on our invested capital, and that is the reason in some cases we are monetizing assets and reducing the asset exposure or the heavy asset exposure we have in some markets.

MR. : **[Skillling]** How many more do you think we should take?

MR. : **[Lay]** I'd say another--

MR. : **[Skillling]** Another 5 minutes?

MR. : **[Lay]** Yeah. I'd say another 5 minutes or so, probably. Is that all right? Is that okay?

MR. : **[Skillling]** We apologize. We are not going to get through all of the questions.

MR. : **[Sutton]** These are excellent questions.

MR. : **[Skillling]** We are just--we are just flat out running out of time.

Is EBS ever likely to be sold, or is it considered

a core business to Enron?

EBS is a core business to Enron. This is center of the fairway for Enron in terms of skills and capabilities. I think it gives us a great channel for our people to have additional development opportunities in the future. I think it ties them very closely to with what we are doing in the wholesale market. So it is absolutely a core business to Enron.

Now, one of the things you will hear us saying at times is if we don't get value for EBS, in other words, if our stock price doesn't reflect the value of EBS, that we will do what is necessary to get that value, which is sell it. And we will say that, but I will tell you what, I don't want to sell it. This is something that is center of the fairway. So we are in a little bit of a Catch 22.

As long as they believe that we will do it, then we don't have to do it, and so we are going to tell them that we are willing to do it so that we don't have to do it.

So it's a core business, and it's something that gives all of us additional career development opportunities, and I think it's a great add-on to the skill base that we have internally.

MR. : **[Sutton]** One here. What plans do

you have for Zurich [?]? **[Azurix]**

We have been working quite extensively with the Zurichs **[Azurix]**. We have redefined the strategy there and the focus with the Zurichs **[Azurix]**, and we hope that this year will be a good year of Zurichs **[Azurix]** and they will be able to improve on their performance.

But it is important to point out that, you know, we are--that's a publicly traded company, and as a publicly traded company, they work for their shareholders. We are a large shareholder, but at the same time, we are not actively managing that company every day, but we are involved and are focusing the strategy somewhat. We are concerned about the price and direction, and I think Rebecca and her team has done a good job now in putting that back together, focusing on a different strategy, and see if they can't grow the company in a different way.

The one company--I am going to pass this one to Ken.

The question is: What further level of involvement is Enron going to take regarding keeping the Rockets in Houston?

MR. LAY: That was probably from somebody in Houston.

MR. : **[unidentified speaker]** I think so.

[Laughter.]

MR. LAY: But, indeed, we believe that it is important that we keep the Rockets in Houston, just like we thought it was very important that we keep the Astros in Houston.

And just so you know, particularly those of you not in Houston, we think--we think, in fact, today, having professional sports in a big international city like Houston, particularly in America, it is just--it is just as important as making sure you've got a great opera and a great symphony and great museums and great parks and all the other things that kind of add up to a great quality of life because, as we have repeated over and over again, the only thing that differentiates Enron from everybody else is our talent base. And we've got to continue to be able to attract the very best, brightest, most creative talent in the world. And we don't want to have any strokes against us.

We want to make sure when people come to Houston to think about working for Enron. If they are a real avid basketball fan or a real avid football fan or a real avid baseball fan, that's not a negative. At least it's a

neutral, and, hopefully, it's a positive. So we think it's very important that we do that, and, certainly, we are committed to do whatever is reasonably possible to see if we can't keep the Rockets in Houston, much the same way that we have provided the leadership role about 3 years ago to keep our Astros in Houston, and, of course, have been very instrumental also in trying to help get a new football franchise back in Houston, hopefully with everybody else's money for the most part.

Let me hit a couple more real quick here which I think everybody would be interested in. One, is there going to be a replacement for the all employee stock option plan that has expired?

It expires this year, Dan; is that right?

What might that look like? When will it be announced in full?

We strongly believe in employee stock ownership. I think one of our strengths as a company is that every employee has Enron stock or Enron options, so has a strong interest in the shareholder because they are one. So we will continue some kind of a program that assures that.

As many of you know, I think we introduced our first employee stock ownership plan back in about 1987 or

'88. So this has been a very long policy at Enron, and certainly every indication that we see is it's been a very successful policy. So we will be--we will be replacing our all employee stock ownership plan with something that, again, helps or ensures that every employee still continues to feel and operate like a shareholder.

I've seen several recent announcements on electricity storage products in the U.S. Is Enron going to get involved in electricity storage similar to our gas storage projects?

Probably, the main thing we are doing there is building these peaking--natural gas peaking powerplants. Between--starting really back in '98 and coming on stream in June of last year, we brought on over a thousand megawatts of natural gas peaking capacity, which we could turn on as storage was needed or as peak demands were achieved.

We are building another thousand-plus megawatts this year. What is the number, Jeff? Is it 12--

MR. SKILLING: 1,800.

MR. LAY: 1,800 this year. So we are continuing to do that, and we will continue to do that because it makes good economic sense.

Finally, on this question, anyway, on this series,

it sounds as if we are one of the early entrants into the large bandwidth carrier business. Who do you view as our primary competitors? Is it the traditional phone companies?

Well, I think as Jeff laid out for you, we think we truly do have a unique strategy in the broadband business and the bandwidth business, and, of course, now that we have laid that out, other people are beginning to kind of say, "Yeah. We are going to get involved in bandwidth intermediation," and, obviously, there are some other people that have certain broadband capacity--or capabilities, but most of the telephone companies, maybe all of the telephone companies eventually, but many of the telephone companies, particularly the regional bells, we think will be major customers of ours.

Of course, we just signed--or just announced a contract we have with U.S. West just a few days ago, and we have other contracts of that nature that are very far advanced now.

I think the standpoint of those that have similar--or have some of the capabilities we have like Ikami [ph] **[Akamai]** would be one, Desert Island. So there are some other smaller companies that have some of the capabilities we have on broadband services, but nobody has

all of the capabilities we have. I mean, we have a superior product, and the market is beginning to confirm that.

And, of course, as Joe said, we are not just a small start-up company. We do have strong cash flows. We do have net income, about a billion dollars of that protect that income last year. We do have also a very substantial market capitalization.

So I think we will be competing with a lot of different companies. Probably, more importantly, there will be--just like in the other businesses that we have been instrumental in restructuring, there will be some--some of those incumbent companies for us and some against us, but we are kind of used to that. And now it's just a matter of having the best strategy and the beset people to make sure that our strategy does well.

MR. : **[Skilling]** I see the eyes are glazing over in the room, and so, if that's any indication, I am sure we are seeing people drop off the network now. So I think it's probably not a bad idea to go ahead and call it a day.

I will take any other questions out of this group before we close, if anyone has got any.

[Side 2 of Tape No. 834 begins.]

MR. : **[Skilling]** Okay. With that, I think we will probably close off the session.

We will go through the remaining questions that we have gotten, and this is really the first time we haven't answered every question that we have gotten. But we will go through the remaining questions and we will see if there are any themes, and if there is something that people are asking that we need to get back to you on, we will get back to you on the questions.

MR. : **[Sutton]** We can put it on over E-speak and launch them over E-Speak.

MR. : **[Skilling]** Sure.

MR. : **[Sutton]** Turn to E-Speak, and you will get the answers there.

MR. LAY: Let me add one final thing. Let me say, obviously, we'd love to have feedback from those of you that are watching this on your computer around the world, as well as through conference--conferencing techniques I think in certain parts of the world as to whether you found it useful or not.

But, finally, I would like to thank all of our technical and communications people that have made this possible. This is--this was no modest effort to get it all

up and running here in London, and, certainly, our broadband services people, our global technology people as well as our E-Speak people, and certainly all of our people over here that have been trying to keep up with all of your questions on the Internet.

But, again, we very much appreciate you either being here in person or being dialed in or whatever because it is important, as Joe said earlier, that we really do everything we can as a company to communicate with one another.

These have been excellent questions today. We've certainly tried to respond to them, and this is always fun, but, again, the company is doing great and it's doing great because of all of you.

So thank you very much.

[Applause.]

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